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New Generation Cooperatives: What, Why, Where, and How

An Internet Guide

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As consolidation and the industrialization of agriculture intensify, the food chain is undergoing significant structural changes. Increased concentration and increased vertical coordination are occurring as businesses in the agrifood sector try to increase efficiencies, relay information along the supply chain more quickly, and take advantage of profits at other stages of the food chain. Many agricultural producers are responding to the changing environment by cooperating with other producers to develop value-added businesses. One common organizational form that producers are using is the New Generation Cooperative.

This Internet guide is a resource to help producers locate electronically available information on New Generation Cooperatives. In the following sections, we provide a brief explanation of the what, why, where, and how of New Generation Cooperatives and lists related references to publications and other information available on the Internet.

What Is a New Generation Cooperative?

New Generation Cooperatives (NGCs) are a relatively new cooperative structure. NGCs have particular characteristics that differentiate them from traditional agricultural cooperatives. These characteristics include: value-added processing of members' commodities, a significant equity contribution by farmer members, obligation of product delivery based on equity contribution, and the ability to trade equity shares and delivery rights. Two characteristics of NGCs that are similar to traditional cooperatives are: earnings based on member patronage and one-member, one-vote.

Purdue economists examined the growth and development of New Generation Cooperatives and described the structure of NGCs and their strengths and weaknesses in:

— Fulton, Joan, Brian Jones, and Lee Schrader. (1998) "New Generation Cooperatives." *Purdue Agricultural Economics Report*. September 1998. p. 7-10.
<http://www.agecon.purdue.edu/ext/paer/1998/paer0898.pdf>

Other useful articles that provide an overview on New Generation Cooperatives include:

— Centre for the Study of Co-operatives. University of Saskatchewan. (2001) "Overview of NGC Model."
<http://coop-studies.usask.ca/NGC2/ngcoverview.htm>

— Coltrain, David, David Barton, and Michael Boland. (2000) "Differences Between New Generation Cooperatives and Traditional Cooperatives." Arthur Capper Cooperative Center, Kansas State University. May 2000.
<http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/DiffTrad3.pdf>

— Fulton, Murray. (2000) "New Generation Cooperatives." Centre for the Study of Co-operatives. University of Saskatchewan. November 2000.
<http://coop-studies.usask.ca/pdf-files/What%20Are%20NGCs%3F.pdf>

— Hackman, Deanne. (2001) "What is a New Generation Cooperative(NGC)?" *Ag Decision Maker*. Iowa State University Extension. December 2001.
<http://www.extension.iastate.edu/agdm/articles/others/HackDec01.htm>

— University of Manitoba and Agri-Food Research and Development Initiative. (1999) "New Generation Cooperatives on the Northern Plains."
http://www.umanitoba.ca/faculties/afs/agric_economics/ardi/index.html

Why Do Producers Form New Generation Cooperatives?

There are many reasons why producers form a New Generation Cooperative. Producers may individually be looking for the opportunity to increase their margins and thus their income, diversify their investment portfolio, reduce their risks, or increase their market. In addition, producers may decide to form an NGC if their local processing plant closed and they needed somewhere to market their product. Another reason for forming an NGC is to increase or maintain the number of jobs in the local community.

Articles that describe the emergence of NGCs and explain some of the problems associated with traditional cooperatives include:

— Coltrain, David, David Barton, and Michael Boland. (2000) "Value Added: Opportunities and Strategies." Arthur Capper Cooperative Center, Kansas State University. June 2000.
<http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/VALADD10%202col.pdf>

— Cook, Michael and Constantine Iliopoulos. (1999) "Beginning to Inform the Theory of Cooperative Firm: Emergence of New Generation Cooperatives." The Finnish Journal of Business Economics. April. p.525-535. (University of Missouri).
<http://www.ssu.missouri.edu/faculty/mcook/cv/finnish.pdf>

Articles that provide further explanation concerning why individual producers would invest in an NGC include:

— Cobia, David. (1997) "New Generation Cooperatives: External Environment and Investor Characteristics." Paper presented at Food and Agricultural Marketing Consortium, Las Vegas, NV. January 1997. (Quentin Burdick Center for Cooperatives, North Dakota State University).
<http://www.wisc.edu/uwcc/info/cobia.html>

— Hofstrand, Don. (1999) "Value-added Cooperatives – Wave of the Future." Ag Decision Maker. Iowa State University Extension. January 1999.
<http://www.exnet.iastate.edu/agdm/articles/hof/HofJan99.htm>

— Sinner, George. (1999) "Why Farmers Won't Survive Unless They Become Food Merchants." Bloomquist Lecture Series. Quentin Burdick Center for Cooperatives, North Dakota State University. April 1999.

<http://www.ag.ndsu.nodak.edu/qbcc/BloomquistLectures/1999sinner.htm>

— Torgerson, Randall. (2001) "A critical look at new generation cooperatives." Rural Cooperatives. USDA Rural Business- Cooperative Service. January/February. p.15-19.
<http://www.rurdev.usda.gov/rbs/pub/jan01/jan01.pdf>

Articles that provide information about the economic benefits that communities enjoy when an NGC is established in the region include:

— Doherty, Michael. (1997) "New Age Cooperatives and Their Role in Rural Development: USDA-Rural Development Program." Rural Research Report. Illinois Institute for Rural Affairs, Western Illinois University. Summer 1997. Vol. 8, Issue 7.
http://www.iira.org/pubsnew/publications/IVARDC_RRR_74.pdf

— Estes, Patricia. (1996) "Committing to a Community: Minn-Dak Farmers Cooperative" in American Cooperation. National Council of Farmer Cooperatives. p. 3-7.
<http://www.americancooperation.org/Browse.htm> (Select 1996, Select the article, which is located under Chapter 1.)

— Loewe, Paula and Evert Van der Sluis. (2000) "Socioeconomic Conditions for and Impacts of Establishing and Operating a New Generation Cooperative: The Case of the South Dakota Soybean Processors." Paper presented at the Western Agricultural Economics Association Annual Meeting, June 2000. Vancouver, Canada. (South Dakota State University).
http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=2225

— Rural Business Cooperative Service. "The Impact of New Generation Cooperatives on Their Community." USDA Rural Business- Cooperative Service. Report by a Consortium of Midwest University Researchers. RBS Research Report 177.
<http://www.rurdev.usda.gov/rbs/pub/RR177.pdf>

— Sell, Randall, Dean Bangsund, and F. Larry Leistritz. (2000) "Contribution of the Bison Industry to the North Dakota Economy." Agricultural Economics Report No. 442. Department of Agricultural Economics, North Dakota State University. June 2000.
http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=2288&ftype=.pdf

Where Are New Generation Cooperatives Being Formed?

The sugar beet producers of the Red River Valley, located on the North Dakota/Minnesota border, pioneered the first NGC in the early 1970's. However, the number of NGCs established has taken off only within the last decade. A large number of these cooperatives are in Minnesota and North Dakota. However, the concept of NGC can be applied in any area.

Directories of NGC's include:

— Coltrain, David. (2000) "Kansas Directory of New Generation Cooperatives and Other Producer Alliances." Arthur Capper Cooperative Center, Kansas State University. May 2000.

<http://www.agecon.ksu.edu/accc/kcdc/PDF%20Files/Kansas2.pdf>

— Merrett, Christopher, Mary Holmes, and Jennifer Waner. (1999) "Directory of New Generation Cooperatives." Illinois Institute for Rural Affairs, Western Illinois University. September 1999.

http://www.iira.org/pubsnew/publications/IVARDC_Reports_8.pdf

The following case studies of NGCs provide an overview of these new businesses:

— Holmes, Mary, Norman Walzer, and Christopher Merrett. (2001) "New Generation Cooperatives: Case Studies Expanded 2001." Illinois Institute for Rural Affairs, Western Illinois University. August 2001.

http://www.iira.org/pubsnew/publications/IVARDC_CS_198.pdf

— Stefanson, Brenda and Murray Fulton. (1997) "New Generation Cooperatives: Responding to Changes in Agriculture." Centre for the Study of Co-operatives, University of Saskatchewan. September 1997.

http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=1663&ftype=.pdf

— University of Manitoba and Agri-Food Research and Development Initiative. (1999) "New Generation Cooperatives on the Northern Plains."

http://www.umanitoba.ca/faculties/afs/agric_economics/ardi/index.html

— Zeuli, Kim, Gary Goreham, Robert King, and Evert van der Sluis. (1998) "Dakota Growers Pasta Company and the City of Carrington, North Dakota: a Case Study." Report for the USDA Fund for Rural America. March 1998.

<http://www.wisc.edu/uwcc/info/fra/carrington.pdf>

How Is a New Generation Cooperative Formed?

The formation of an NGC begins with an idea and a group of producers who have a vision of making it happen. There are many steps between the initial idea and a functioning business, including: market and feasibility studies, development of a business plan, recruitment of membership, and securing necessary equity and debt capital. A number of useful references are available for producers who are interested in determining what it takes to form a New Generation Cooperative.

USDA Rural Development – Cooperative Services has published numerous Cooperative Information Reports (in booklet format) dealing with establishing and operating a cooperative. These reports are just as relevant for New Generation Cooperatives as they are for traditional cooperatives. A menu of and links to the Cooperative Information Reports published by USDA can be found at <http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>.

Selected USDA Cooperative Information Reports that are of particular interest to those organizing New Generation Cooperatives include:

— Mather, J. Warren, and Homer Preston. (1990) "Cooperative Benefits and Limitations." USDA Rural Business – Cooperative Service, Cooperative Information Report 1 Section 3.

<http://www.rurdev.usda.gov/rbs/pub/cir1sec3.pdf>

— Meyer, Tammy. (1999) "Cooperative Business Principals." USDA Rural Business – Cooperative Service, Cooperative Information Report 45 Section 2.

<http://www.rurdev.usda.gov/rbs/pub/cir452.pdf>

— Meyer, Tammy. (1994) "The Structure of Cooperatives." USDA Rural Business – Cooperative Service, Cooperative Information Report 45 Section 3.

<http://www.rurdev.usda.gov/rbs/pub/cir453.pdf>

— Namken, Jerry and Galen Rapp. (1997) "Strategic Planning Handbook for Cooperatives." USDA Rural Business – Cooperative Service, Cooperative Information Report 48.

<http://www.rurdev.usda.gov/rbs/pub/cir48.pdf>

— Patrie, William. (1998) "Creating 'Co-op Fever': A Rural Developers Guide to Forming Cooperatives." USDA Rural Business – Cooperative Service. RBS Service Report 54. July 1998.

<http://www.rurdev.usda.gov/rbs/pub/sr54/sr54.htm>

— Rapp, Galen. (1995) "How to Start a Cooperative." USDA Rural Business – Cooperative Service, Cooperative Information Report 45 Section 14.

<http://www.rurdev.usda.gov/rbs/pub/cir4514.pdf>

— Rathbone, Robert. (1995) "Cooperative Financing and Taxation." USDA Rural Business – Cooperative Service, Cooperative Information Report 1 Section 9.

<http://www.rurdev.usda.gov/rbs/pub/cir1sec9.pdf>

— Vogelsang, Donald, John Bailey, Lloyd Biser, E. Eldon Eversull, and J. Warren Mather. (1993) "Cooperative Organization and Structure." USDA Rural Business – Cooperative Service, Cooperative Information Report 1 Section 6.

<http://www.rurdev.usda.gov/rbs/pub/cir1sec6.pdf>

Articles and reports that provide information on the formation and operation of New Generation Cooperatives include:

— Brown, Roger and Christopher Merrett. (2000) "The Limited Liability Company Versus the New Generation Cooperative: Alternative Business Forms for Rural Economic Development." Rural Research Report. Illinois Institute of Rural Affairs, Western Illinois University. Spring 2000. Vol. 11, Issue 7.

http://www.iira.org/pubsnew/publications/IVARDC_RRR_44.pdf

— Hanson, Mark. (2000) "Starting a Value-Added Agribusiness: The Legal Perspective." Illinois Institute of Rural Affairs, Western Illinois University. January 2000.

http://www.iira.org/pubsnew/publications/IVARDC_Other_5.pdf

— Johnson, Dennis. (1996) "The Rise of the New – Wave Cooperatives." American Cooperation. National Council of Farmer Cooperatives.

<http://www.americancooperation.org/Browse.htm>

(Select 1996, Select the article, which is located under Chapter 5.)

— Lawless, Greg and Will Hughes. "The Potential Role of Cooperatives in Wisconsin's Aquaculture Industry." University of Wisconsin Center for Cooperatives.

http://www.wisc.edu/uwcc/info/i_pages/aquacul.html

— Missouri Department of Agriculture. Agriculture Innovation Center. "Getting From Idea to Implementation: A Checklist for Producers Starting a New Value-Added Agriculture Business."

<http://www.aginnovationcenter.org/IdeatoImplementation.pdf>

— Morris, Ralph. (1996) "Legal and Financial Aspects of New Generation Cooperatives: Legal Implications." New Generation Cooperatives Conference. April 1996.

<http://www.wisc.edu/uwcc/info/morris.html>

— Olson, Frayne. (1996) "Should I Join a New Processing Cooperative?" Quentin Burdick Center for Cooperatives, North Dakota State University. July 1996.

<http://www.ext.nodak.edu/extpubs/agecon/farmmgmt/eb67w.htm>

— Saskatchewan Economic and Co-operative Development. (1999) "Building the New Saskatchewan: New Generation Co-operatives for Agricultural Processing and Value Added Projects." November 1999.

<http://coop-studies.usask.ca/NGC2/DEVELGDE.pdf>

— Stefanson, Brenda, Murray Fulton, and Andrea Harris. (1995) "New Generation Cooperatives: Rebuilding Rural Economics." Centre for the Study of Co-operatives, University of Saskatchewan. September 1995.

<http://coop-studies.usask.ca/pdf-files/Rebuilding.pdf>

— Thyfault, Cindy. (1996) "Developing New Generation Co-ops: Getting Started on the Path to Success." Rural Cooperatives. USDA Rural Business – Cooperative Service. July/August 1996.

<http://www.wisc.edu/uwcc/info/develngen.html>

— Torgerson, Randall. (2001) "A Critical Look at New Generation Cooperatives." Rural Cooperatives. USDA Rural Business- Cooperative Service. January/February. p.15-19.

<http://www.rurdev.usda.gov/rbs/pub/jan01/jan01.pdf>

— University of Manitoba and Manitoba Rural Adoption Council. "Forming a New Generation Cooperative in Manitoba."

http://www.umanitoba.ca/afs/agric_economics/MRAC/

New Generation Cooperatives may be an appropriate business structure for producers to use as they invest in value-added businesses. However, all businesses have the potential of earning positive or negative profits and have many risks. It makes sense to do your homework.